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IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

IN RE HEWLETT-PACKARD COMPANY  
SHAREHOLDER DERIVATIVE LITIGATION

Master File No. 12-CV-6003 CRB

**DECLARATION OF DAVID F.  
LARCKER**

This Document Relates to: All Actions

1 I, DAVID F. LARCKER, declare as follows:

2 1. Plaintiffs' Lead Counsel, Cotchett, Pitre & McCarthy LLP, retained me in this  
3 Action to consult with them relating to Plaintiffs' claims and, specifically, to assist them in their  
4 negotiations with Hewlett-Packard Company ("HP" or the "Company"), the review HP's existing  
5 policies and practices, and the creation and implementation of corporate governance reforms that  
6 would help to ensure that issues described in the Complaint relating to HP's Mergers & Acquisition  
7 ("M&A") process do not re-occur in the future, including the ability to detect and address potential  
8 evidence of fraud by M&A acquisition targets. Counsel also asked me to review the proposed  
9 Settlement terms in the Action, and specifically the M&A Reforms ultimately agreed to by the  
10 parties, and assess whether these reforms provide substantial benefits to HP and its shareholders.

11 2. It is my opinion that the M&A Reforms provide substantial benefits to HP and its  
12 shareholders by changing HP's M&A policies and practices, thereby reducing the likelihood of  
13 harm in the future. The M&A Reforms will also improve the manner of communications between  
14 HP's Board, management and employees involved in the M&A process, including the early  
15 identification of risk to the Company, whether financial, technological, or legal. As such, the  
16 reforms will have positive long-lasting effects on HP and its shareholders.

17 **Personal Background and Qualifications**

18 3. I am the James Irvin Miller Professor of Accounting at the Graduate School of  
19 Business at Stanford University. I also currently serve as the director of the Corporate Governance  
20 Research Program at the Graduate School of Business and a senior faculty at the Rock Center for  
21 Corporate Governance. Prior to coming to Stanford, I was the Ernst & Young Professor of  
22 Accounting at The Wharton School of the University of Pennsylvania, a position I held for twenty  
23 years. I have also served as a Professor of Accounting and Information Systems at the J.L. Kellogg  
24 Graduate School of Management at Northwestern University. I received undergraduate and masters  
25 degrees in engineering from the University of Missouri – Rolla and a doctorate in business from the  
26 University of Kansas.

27 4. My primary research focused on the fields of executive compensation and corporate  
28 governance. This research has been published in various top accounting and finance journals. I

1 also teach graduate and executive courses in executive compensation and corporate governance. I  
2 previously served as a member of the Financial Accounting Standards Board Task Force on  
3 accounting for executive stock options from 1993 to 1996, the Steering Committee for the Business  
4 Reporting Research Project of the Financial Accounting Standards Board from 1999 to 2000, and  
5 the Option Valuation Group of the Financial Accounting Standards Board. A copy of my  
6 curriculum vitae is attached hereto as Exhibit A.

7 **The Proposed Settlement and the Substantial Benefits to HP**

8 5. On August 18, 2011, HP announced its intention to make a tender offer for all shares  
9 of Autonomy Corporation plc, and on October 3, 2011 the tender offer was closed. Just over a year  
10 later, on November 20, 2012, HP announced that it was taking an \$8.8 billion impairment charge  
11 for goodwill and intangible assets related to Autonomy. Several shareholder derivative actions  
12 were filed relating to HP's evaluation, acquisition and integration of Autonomy. While I  
13 understand HP and the individual officer and director defendants deny the allegations, there has  
14 been widespread criticism of HP's due diligence process and the Company admittedly failed to  
15 detect that Autonomy's financial statements were materially misrepresented.

16 6. The Settlement requires HP and its Board to implement numerous reforms to HP's  
17 M&A processes, including those involved in evaluating Autonomy. While many of the reforms are  
18 targeted at the issues described in the complaints, they also generally improve corporate governance  
19 at HP, and are not otherwise required to be implemented under any law or regulation.

20 7. Given the substantial write-down related to the Autonomy acquisition, as well as  
21 HP's stated interest in M&A activity going forward, I understand an underlying objective by  
22 Plaintiffs in this litigation was to ensure that HP significantly strengthened its M&A processes, and  
23 that the individual defendants (and future HP directors and officers) take a greater role in detecting  
24 and addressing issues of risk in future deals. In my opinion, the adoption of stronger internal  
25 controls will help HP identify issues earlier in the due diligence process, allowing senior  
26 management and, if necessary, directors, to address and resolve them prior to approval of any deal.

27 8. The Settlement is designed to address these concerns, including a senior executive-  
28 level Risk Management Committee with a defined, Board-approved charter, charged with ensuring

1 that due diligence risk issues are identified and raised to the CEO and Board level. HP will also  
2 implement a comprehensive internal electronic database, linking all of HP's separate business units  
3 involved in M&A due diligence, to ensure M&A procedures are performed, documented, and  
4 reported to senior management. HP will implement reforms to the Board's Finance & Investment  
5 Committee and Investment Review Board, charged with oversight of HP's M&A activity, relating  
6 to the composition and dissemination of due diligence prepared reports by advisors retained by the  
7 Company, and a defined process review of M&A activities. HP has also agreed to implement a new  
8 fairness opinion policy, with defined disclosures and distribution for such opinions, and a new  
9 M&A due diligence policy requiring a technology due diligence plan approved by the Board's  
10 Technology Committee.

#### 11 **Valuation of Reforms**

12 9. It is admittedly difficult to precisely quantify the value of a particular corporate  
13 reform, let alone the comprehensive set included in the Settlement. However, it is well established  
14 that strong corporate governance adds significant value to a corporation and helps to reduce  
15 significant risk.

16 10. This is particularly important here, given HP's active participation in M&A activity,  
17 including deals of substantial magnitude and importance to the Company. Indeed, HP specifically  
18 references the ability to successfully evaluate and integrate a newly-acquired company as one of the  
19 primary risk factors to its financial reports. See, e.g., 2013 Annual Report at pp. 26-28. According  
20 to HP, "In order to pursue this [M&A] strategy successfully, we must identify candidates for and  
21 successfully complete business combination and investment transactions, some of which may be  
22 large or complex, and manage post-closing issues such as the integration of acquired businesses,  
23 products, services or employees." HP also notes that business combinations transactions "have  
24 resulted, and in the future may result, in significant costs and expenses and charges to earnings,  
25 including those related to . . . goodwill and asset impairment charges." As to due diligence, HP  
26 states that processes "may fail to identify significant issues with the acquired company's product  
27 quality, financial disclosures, accounting practices or internal control deficiencies." I understand  
28 that many of these same issues relate to allegations made with respect to the Autonomy acquisition.

11. Further, in my opinion, the value of strong governance to a corporation only increases with the size and market capitalization of the corporation. Here, HP is one of the United States' largest publicly-traded companies, with a market capitalization of over \$68 billion. Thus, the governance reforms will produce substantial increases in shareholder value.

12. My conclusions are confirmed by academic research. In 2003, Harvard University Professors Paul Gompers and Joy Ishii, along with the University of Pennsylvania Professor Andrew Metrick, completed a study of the stock performance characteristics at 1500 large firms during the 1990s.<sup>1</sup> The Study showed that a fund that purchased stock in firms with the strongest governance and sold stock in companies with the weakest governance would have earned abnormal returns of 8.5 percent per year during the sample period. The study also found that companies with stronger governance had higher firm value, higher profits, higher sales growth, and lower capital expenditures.

13. In 2012, Vicente Cunat of the London School of Economics, Mireia Gine of the IESE Business School, and Maria Guadalupe of INSEAD examined the stock price reaction to almost 4,000 shareholder sponsored governance proposals.<sup>2</sup> The study showed that adopting a governance proposal increased shareholder value by 2.8%.

14. While it is impossible to assign a precise dollar figure to the value of the corporate governance reforms in the Settlement, it is my opinion that, based on the market value attributed to strong corporate governance determined by Gompers, Ishii, and Metrick and Cunat, Gine, and Guadalupe, the Settlement will have a significant positive impact on the market value of HP.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed this 22<sup>nd</sup> day of January 2015 in Palo Alto, California.

  
DAVID F. LARCKER

<sup>1</sup> Gompers, Ishii & Merrick, *Corporate Governance and Equity Prices*, Quarterly Journal of Economics 118(1), February 2003, pp. 107-155.

<sup>2</sup> Cunat, Gine, and Guadalupe, *The Vote is Cast: The Effect of Corporate Governance on Shareholder Value* 68(5), pp. 1943-1977.

# EXHIBIT A

## **CURRICULUM VITAE**

**DAVID F. LARCKER**

### **HOME ADDRESS:**

45 Saddleback Road  
Portola Valley, CA 94028

### **OFFICE:**

E356 Knight Management Center  
Stanford University  
Graduate School of Business  
655 Knight Way  
Stanford, CA 94305-7298

Larcker\_David@gsb.stanford.edu  
(650) 725-6159

### **EDUCATION:**

Ph.D.	University of Kansas, 1978 Major: Accounting Dissertation: Strategic Decision Processes and Implications for the Design of Accounting Information Systems
M.S.	University of Missouri - Rolla, 1974 Major: Engineering Management Master's Thesis: A Training Simulation for Rural Electric Cooperative Management
B.S.	University of Missouri - Rolla, 1972 Major: Mechanical Engineering

### **TEACHING POSITIONS:**

2006 – present	James Irvin Miller Professor of Accounting Graduate School of Business Stanford University Director, Corporate Governance Research Program Senior Faculty, The Rock Center for Corporate Governance
2005 – 2006	Professor of Accounting Graduate School of Business Stanford University
1985 - 2005	Ernst & Young Professor of Accounting The Wharton School University of Pennsylvania



1984 - 1985	Professor of Accounting and Information Systems, J. L. Kellogg Graduate School of Management Northwestern University
1981 - 1984	Associate Professor of Accounting and Information Systems, J. L. Kellogg Graduate School of Management Northwestern University
1978 - 1981	Assistant Professor of Accounting and Information Systems, J. L. Kellogg Graduate School of Management Northwestern University

**OTHER:**

Coopers and Lybrand Research Fellow, 1979-1980.  
Hay Group Faculty Research Fellow, 1981-1984.  
American Accounting Association Doctoral Consortium Faculty, 1984, 1988, 1989, 1994, 1995, 1997, 2000, 2003, 2005.  
Big Ten Doctoral Consortium Faculty, 1985 and 1992.  
Pac Ten Doctoral Consortium Faculty, 2000.  
Hay Group Academic Advisory Council, 1986-1988.  
FASB Task Force Member on Accounting for Executive Stock Options, 1993-1996.  
FASB Options Valuation Group Member, 2003.  
American Accounting Association Distinguished Visiting International Lecturer, 1993  
Coopers & Lybrand Accounting Academics Advisory Group, 1994-1998.  
Advisory Board of the American Customer Satisfaction Index, 1995-1997.  
Steering Committee for the Business Reporting Research Project of the Financial Accounting Standards Board, 1998-2000.  
Advisory Board for the Center for Excellence in Accounting and Security Analysis at Columbia University, 2003-present.

**AWARDS:**

Notable Contribution to Managerial Accounting Research, 2001  
Distinguished Service to Ph.D. Students Award, 2010

**RESEARCH INTERESTS:**

Executive Compensation Contracts  
Corporate Governance  
Managerial Accounting  
Applied Econometrics



**TEACHING INTERESTS:**

Managerial Accounting, Financial Statement Analysis, and Corporate Governance

**EDITORIAL REVIEW BOARDS:**

*The Accounting Review* 1979-1983, 1990-1994, 2008-2010

*Journal of Accounting and Economics*, 1985-present

*Journal of Accounting Research*, 1987-present

*Journal of Management Accounting Research*, 1988-2001

*Administrative Science Quarterly*, 1994-1997

*Accounting, Organizations and Society*, 1996-present

*Journal of Accounting and Public Policy*, 2002-present

*Journal of Applied Corporate Finance*, Advisory Board, 2004-present

**MEMBERSHIPS:**

American Accounting Association

**PRIOR EMPLOYMENT:**

August, 1972 - August, 1973

Engineer

Southwestern Bell Telephone Company

**PUBLICATIONS:**

**Book:**

D.F. Larcker and B. Tayan, *Corporate Governance Matters: A Closer Look at Organizational Choices and Their Consequences* (Upper Saddle River, NJ: FT Press, 2011).

**Articles:**

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2. Gordon, L. A., D. F. Larcker, and F. D. Tuggle, "Strategic Decision Processes and the Design of Accounting Information Systems: Conceptual Linkages," *Accounting, Organizations and Society*, Vol. 3, No. 3/4 (May, 1978), pp. 203-213.

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12. Larcker, D. F. and L. Revsine, "The Oil and Gas Accounting Controversy: An Analysis of Economic Consequences," *The Accounting Review*, Vol. 53, No. 4 (October, 1983), pp. 706-732.
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15. Larcker, D. F. "Short-Term Compensation Contracts and Executive Expenditure Decisions: The Case of Commercial Banks," *Journal of Financial and Quantitative Analysis*, Vol. 22, No. 1 (March, 1987), pp. 33-50.
16. Larcker, D. F. and T. Lys, "An Analysis of the Incentives to Engage in Costly Information Acquisition: The Case of Risk Arbitrage," *Journal of Financial Economics*, Vol. 18, No. 1 (March, 1987), pp. 111-126.
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18. Lambert, R. A. and D. F. Larcker, "An Analysis of the Use of Accounting and Market Measures of Performance in Executive Compensation Contracts," *Journal of Accounting Research*, Vol. 25 (Supplement, 1987), pp. 85-125.
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21. Lambert, R. A., Lanen, W. N., and D. F. Larcker, "Executive Stock Option Plans and Corporate Dividend Policy," *Journal of Financial and Quantitative Analysis*, Vol. 2, No. 4 (December, 1989), pp. 409-425.
22. Lambert, R. A., D. F. Larcker, and R. E. Verrecchia, "Portfolio Considerations in the Valuation of Executive Compensation," *Journal of Accounting Research*, Vol. 29, No. 1 (Spring, 1991), pp. 129-149.
23. Janakiraman, S. N., R. A. Lambert, and D. F. Larcker, "An Empirical Analysis of the Relative Performance Evaluation Hypothesis," *Journal of Accounting Research*, Vol. 30, No. 1 (Spring, 1992), pp. 53-69.
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26. Lambert, R. A., D. F. Larcker, and K. Weigelt, "The Structure of Organizational Incentives," *Administrative Science Quarterly*, Vol. 38, No. 3 (September, 1993), pp. 438-461.
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55. Armstrong, C. S., A. D. Jagolinzer, D. F. Larcker, "Chief Executive Officer Equity Incentives and Accounting Irregularities," *Journal of Accounting Research* Vol. 48, No. 2 (May, 2010), pp. 225-271.
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58. D.F., Larcker, G. Ormazabal, and D. Taylor, "The Market Reaction to Corporate Governance Regulation," *Journal of Financial Economics* Vol. 101 (August, 2011), pp. 431-448.
59. A.D. Jagolinzer, D. F. Larcker, and D.J. Taylor, "Corporate Governance and the Information Content of Insider Trades," *Journal of Accounting Research* 49 (December, 2011), pp. 1249-1274.

60. Armstrong, C.S., J.L. Blouin, and D.F. Larcker, "The Incentives for Tax Planning," *Journal of Accounting and Economics* (forthcoming).
61. Armstrong, C.S., C.D. Ittner, and D. F. Larcker, "Economic Characteristics, Corporate Governance, and the Influence of Compensation Consultants on Executive Pay Levels," *Review of Accounting Studies* (forthcoming).

### Notes, Replies, and Discussion Comments

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2. Larcker, D. F., "Discussion of the SEC 'Reversal' of FASB Statement No. 19: An Investigation of Information Effects," *Journal of Accounting Research*, Vol. 19 (Supplement, 1981), pp. 218-226.
3. Larcker, D. F., R. E. Reder, and D. T. Simon, "Trades by Insiders and Mandated Accounting Standards," *The Accounting Review*, Vol. 58, No. 3 (July, 1983), pp. 606-620.
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5. Larcker, D. F., "Discussion of Accounting Measurement, Price-Earnings Ratios, and the Information Content of Security Prices," *Journal of Accounting Research*, Vol. 27 (Supplement, 1989), pp. 145-152.
6. Lambert, R. A., D. F. Larcker, and K. Weigelt, "How Sensitive is CEO Compensation to Organizational Size," *Strategic Management Journal*, Vol. 12, No. 5 (July, 1991), pp. 395-402.
7. Larcker, D. F., "Discussion of Disqualifying Dispositions of Incentive Stock Options: Tax Benefits vs. Financial Reporting Costs," *Journal of Accounting Research* (Supplement, 1992), Vol. 30, pp. 69-76.
8. Larcker, D. F. and C. D. Ittner, "Empirical Managerial Accounting Research: Are We Just Describing Management Consulting Practice?," *European Accounting Review*, Vol. 11, No. 4 (2002), pp. 787-794.
9. Larcker, D. F., "Discussion of 'Employee Stock Options, EPS Dilution, and Stock Repurchases,'" *Journal of Accounting and Economics*, Vol. 36, Nos. 1-3 (December, 2003), pp. 45-49.



10. Larcker, D. F., "Discussion of 'Are Executive Stock Options Associated with Future Earnings,'" *Journal of Accounting and Economics*, Vol. 36, Nos. 1-3 (December, 2003), pp. 91-103.
11. Larcker, D. F. and T. O. Rusticus, "Endogeneity and Empirical Accounting Research," *European Accounting Review*, Vol. 16, No.1 (2007), pp. 207-215.
12. Armstrong, C. S., D. F. Larcker, Discussion of "The impact of the options backdating scandal on shareholders" and "Taxes and the backdating of stock option exercise dates," *Journal of Accounting and Economics* Vol. 47, Nos. 1-2 (March, 2009), pp. 50-58.

### Other Publications

1. Larcker, D. F., "Managerial Incentives in Mergers and Their Effect on Shareholder Wealth," *Midland Corporate Finance Journal*, Vol. 1, No. 4 (Winter, 1983), pp. 29-35.
2. Lambert, R. A. and D. F. Larcker, "Executive Compensation Contracts, Executive Decision-Making, and Shareholder Wealth: A Review of the Evidence," *Midland Corporate Finance Journal*, Vol. 2, No. 4 (Winter, 1985), pp. 6-22
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